



38 CFR Part 8

RIN 2900-AR29

National Service Life Insurance Premium Payment and Loan Amendment

AGENCY: Department of Veterans Affairs.

ACTION: Final rule.

SUMMARY: The Department of Veterans Affairs (VA) is amending its National Service Life Insurance (NSLI) regulations to offer Service-Disabled Veterans' Insurance (S-DVI) policyholders the option of remitting premiums for government life insurance coverage only on a monthly or annual basis. VA is also increasing the amount that Veteran policyholders are eligible to borrow against the value of their life insurance policies and to adjust the interest rates charged for fixed-rate loans in certain circumstances.

DATES: This rule is effective [insert date 30 days after date of publication in the FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Paul Weaver, Insurance Specialist, Department of Veterans Affairs Insurance Service (310/290B), 5000 Wissahickon Avenue, Philadelphia, PA 19144, (215) 842-2000, ext. 4263. (This is not a toll-free number.)

SUPPLEMENTARY INFORMATION: On October 13, 2021, VA published in the Federal Register (86 FR 56846) a proposed rule to amend its regulations governing the NSLI programs. Interested persons were invited to submit written comments on or before December 13, 2021. VA received two comments concerning the proposed changes to the modes of payment for NSLI premiums.

The first commenter stated that VA makes the “confusing argument that allowing veterans to pay their life insurance bills quarterly or semi-annually adds administrative complexity and program costs,” and that the commenter cannot understand how

providing additional payment options “should add any administrative complexity.” A second commenter stated that calculating quarterly and semi-annual premiums “should not have a higher program cost than calculating the annual premiums.”

We explained in our proposed rulemaking that very few Veteran policyholders choose to pay premiums on a semi-annual or quarterly basis. As part of recent VA efforts to modernize the information technology systems of its life insurance programs, VA purchased commercial-off-the-shelf (COTS) policy maintenance software used by other private insurance companies. This purchase enabled VA to minimize information technology transformation costs to policyholders compared to a custom-designed system built from the ground-up for VA use. This COTS system does not offer quarterly and semi-annual premium modes, and VA would have to incur additional costs to have the contracted vendor add these modes for VA use. VA’s analysis indicated that the costs for this customization were disproportionate to the value of the associated benefit, given the relatively few policyholders who choose these payment modes. If VA were to continue these payment options, it would add administrative complexity and program costs because VA would either have to purchase a customized enhancement for these modes or develop a manual solution to override the functionality of the COTS system when policyholders choose to pay premiums on a semi-annual or quarterly basis. We note that, while the COTS system will be used for current and new policies, current policies will retain the options they have by hardcoding the prior option into the new system at conversion. A policyholder who elects a monthly or annual payment mode after conversion will not have the option to return to a quarterly or semi-annual payment. Again, to allow the quarterly and semi-annual payment options for new policies under the COTS system would require a more costly customized enhancement. Further, VA is required to manage its life insurance programs in a cost-effective and actuarially sound manner (see, e.g., 38 U.S.C. 1920(b); 1925(d)(2)), and continuing to offer

premium modes that would increase costs for all policyholders while benefitting a relative few, while also potentially increasing lapse rates for vulnerable disabled veterans, is not actuarially sound because it is not cost-effective.

The first commenter also stated that an article that we cited to in our proposed rulemaking concerning lapse rates (Cathy Ho & Nancy Muise, *U.S. Individual Life Persistency: Guaranteed & Simplified Issue—A Joint Study Sponsored by Soc'y of Actuaries & LIMRA* 16 (2013), <https://www.soa.org/globalassets/assets/Files/Research/Exp-Study/research-2013-gisi-study.pdf> (last visited Jan. 13, 2022)) “is not compelling” and that there must be “better ways for the VA to allocate its resources than reducing the number of payment options available to veterans.” The second commenter suggested that, because the data in the article is “two decades old,” VA should use a more recent study.

In the proposed rule we stated that “research shows that lapse rates tend to increase with the number of premium payments made each year, with the notable exception of monthly payment modes.” *Id.* We cited to this research because the results of the study support our effort to minimize lapsed life insurance coverage by offering fewer, simpler payment options. We also cited to this research because some of the commercial insurers that we reviewed relied upon this research as well as a prior 2005 study when limiting premium payment options to reduce costs and minimize lapse of coverage for their policyholders. See Marianne Purushotham, *U.S. Individual Life Persistency Update—A Joint Study Sponsored by LIMRA International and the Society of Actuaries*, <https://www.soa.org/globalassets/assets/Files/Research/Exp-Study/US-Indiv-Life-Persistency-Report-Final.pdf> (2005) (last visited Jan. 13, 2022). Because the 2013 study is consistent with the 2005 study that was conducted by the same insurance trade group, we have no reason to believe this pattern would change with more recent data. Also, VA has historically observed more inconsistent premiums from veterans

paying under semi-annual and quarterly payment modes. For the reasons stated above, VA will adopt the proposed rule as final, without change.

Executive Orders 12866 and 13563

Executive Orders 12866 and 13563 direct agencies to assess the costs and benefits of available regulatory alternatives and, when regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, and other advantages; distributive impacts; and equity). Executive Order 13563 (Improving Regulation and Regulatory Review) emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility. The Office of Information and Regulatory Affairs has determined that this rule is not a significant regulatory action under Executive Order 12866. The Regulatory Impact Analysis associated with this rulemaking can be found as a supporting document at www.regulations.gov.

Regulatory Flexibility Act

The Secretary hereby certifies that this final rule will not have a significant economic impact on a substantial number of small entities as they are defined in the Regulatory Flexibility Act, 5 U.S.C. 601-612. This final rule will directly affect only individuals and will not directly affect any small entities. Therefore, pursuant to 5 U.S.C. 605(b), the initial and final regulatory flexibility analysis requirements of 5 U.S.C. 603 and 604 do not apply.

Unfunded Mandates

The Unfunded Mandates Reform Act of 1995 requires, at 2 U.S.C. 1532, that agencies prepare an assessment of anticipated costs and benefits before issuing any

rule that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more (adjusted annually for inflation) in any one year. This final rule will have no such effect on State, local, and tribal governments, or on the private sector.

Paperwork Reduction Act

This final rule contains no provisions constituting a collection of information under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3521).

Congressional Review Act

Pursuant to the Congressional Review Act (5 U.S.C. 801 et seq.), the Office of Information and Regulatory Affairs designated this rule as not a major rule, as defined by 5 U.S.C. 804(2).

Assistance Listing

The Catalog of Federal Domestic Assistance numbers and titles for the programs affected by this document are 64.030, Life Insurance for Veterans – Face Amount of New Life Insurance Policies Issued, and 64.031, Life Insurance for Veterans – Direct Payments for Insurance.

List of Subjects in 38 CFR Part 8

Disability benefits, Life insurance, Loan programs-veterans, Military personnel, Veterans.

Signing Authority

Denis McDonough, Secretary of Veterans Affairs, approved this document on June 6, 2022, and authorized the undersigned to sign and submit the document to the Office of the Federal Register for publication electronically as an official document of the Department of Veterans Affairs.

Luvenia Potts

Regulations Development Coordinator

Office of Regulation Policy & Management

Office of General Counsel

Department of Veterans Affairs

For the reasons set out in the preamble, VA amends 38 CFR part 8 as set forth below:

PART 8—NATIONAL SERVICE LIFE INSURANCE

1. The authority citation for part 8 continues to read as follows:

Authority: 38 U.S.C. 501, 1901-1929, 1981-1988, unless otherwise noted.

2. Amend § 8.2 by revising paragraph (c)(2) and adding paragraph (c)(3) to read as follows:

§ 8.2 Payment of premiums.

* * * *

(c) * * *

(2) Policyholders may pay premiums in advance on an annual basis.

(3) Policyholders insured as of [insert date 30 days after date of publication in the FEDERAL REGISTER] may pay premiums in advance on an annual, semi-annual, or quarterly basis.

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3. Amend § 8.13:

a. In paragraph (a), by removing “which will not exceed 94 percent” and adding “policy” before “reserve” in the first sentence.

b. By revising paragraph (d).

The revision reads as follows:

§ 8.13 Policy loans.

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(d) Notwithstanding any other provisions of this section, the variable loan rate shall not exceed 12 percent or be lower than 5 percent per annum. For policyholders with an existing fixed-rate loan who subsequently apply for an additional loan on the same policy, the existing fixed-rate loan shall be refinanced into the new variable-rate loan at the prevailing variable rate at the time of the new loan application.

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